Matjhabeng Local Municipality
Financial statements
for the year ended 30 June 2016

General Information

Legal form of entity	An organ of state within the local sphere of government exercising executive and legislative authority.
Nature of business and principal activities	Providing municipal services, infrastructure development and furthering the interest of the local community in the Matjhabeng area, Free State Province.
The following is included in the scope of operation	Area FS184, as a high capacity local municipality, as demarcated by the Demarcation Board and indicated in the demarcation map published for FS184.
Grading of local authority	Local high capacity municipality
Executive Mayor	Ngangelizwe S
Members of the Mayoral Committe	Ngangelizwe S - Executive Mayor
	Mbana M A - Finance
	Menyatso K J - Technical Services / infrastructure
	Mfebe M S E - Corporate Services
	Motshabi M P - Community Services
	Ntsebeng MH - Human Settlements
	Radebe M L - Social Services
	Rubulana L - Local Economic Development
	Sephiri M J - Public Safety
	Taliwe F E - Policy and Planning
	Tlhone M L - Special Programmes
Councillors	Badenhorst MJM
	Banyane ME
	Beneke R
	Botha PF
	Chaka CP
	Dali VN
	De Villiers MT
	Fanie DS
	Fourie JJC
	Kabi M
	Khalipha TD
	Kockera SC
	Mabote TL
	Madumise MM
	Mafa D
	Mafongosi ZV
	Makgowe PV
	Malefane DE
	Marais JS
	Masienyane MD (MPAC chair)
	Matlebe MM (Resigned 30/09/2015)
	Mbambo AX
	Meli TS
	Mholo PP
	Mlangeni G
	Mokhomo HA
	Mokotedi TG

General Information

	Molelekoa PA
	Molelekoa PMI
	Molete TN
	Molupe RT
	Monjovo NE
	Morris VR
	Mosala MS
	Mothege MA
	Mphikeleli MA
	Naude ZHJ
	Nqobo ME (New)
	Ntlele KI
	Ntsebeng MH
	Petleki KI
	Phetise ME
	Pina NJ
	Qwesha GL
	Radebe MC
	Riet MI
	Sifatya Z
	Smit DC (Resigned 31/03/2016)
	Speelman NW
	Stofile B (Speaker)
	Styger A
	Taljaard SDM
	Thateng MJ
	Thelingoane TJ
	Tlake KR
	Tsatsa SJ
	Tsubane ME
	Tsubella KS
	Twala MJ (Council Whip)
	Twanana M
	Van Rooyen KV
	Van Rooyen MS
	Van Schalkwyk HCT
	Vanga NM
Accounting Officer	Lepheana MF
Chief Finance Officer (CFO)	Tsoaeli ET
Registered office	Civic Centre 319 Stateway Welkom Free State 9460
Postal address	PO Box 708 Welkom Free State 9460

General Information

Bankers	ABSA Bank Limited First National Bank
Attorneys	A full list of attorneys used during the year is available at the municipal offices.
Auditors	Auditor-General of South Africa
Enabling legislation	Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) Municipal Finance Management Act, 2003 (Act No. 56 of 2003) Municipal Property Rates Act, 2004 (Act No. 6 of 2004) Municipal Structures Act, 1998 (Act No. 117 of 1998) Municipal Systems Act, 2000 (Act No. 32 of 2000)
Website	www.matjhabeng.fs.gov.za

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The reports and statements set out below comprise the financial statements presented to the council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements set out on pages 7 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

Lepheana MF
Municipal Manager

Audit Committee Report

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services, infrastructure development and furthering the interest of the local community in the matjhabeng area, free state province. and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated deficits of R 4,200,622,838 and that the municipality's total liabilities exceed its assets by R 4,200,622,838.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Lepheana MF

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Other financial assets	6	-	18,862,179
Inventories	10	9,594,651	9,414,254
Other receivables	11	28,639,230	18,753,346
Receivables from non-exchange transactions	12	154,640,557	161,926,055
VAT receivable	13	123,462,600	120,315,800
Receivables from exchange transactions	14	872,007,231	743,597,219
Cash and cash equivalents	15	11,520,330	1,536,132
		1,199,864,599	**1,074,404,985**
Non-Current Assets			
Investment property	3	433,740,723	433,740,723
Property, plant and equipment	4	5,433,335,701	5,354,538,795
Heritage assets	5	7,104,349	7,104,349
Other financial assets	6	330,990	339,207
Receivables from non-exchange transactions	8	511,134	-
Receivables from exchange transactions	9	4,060,246	350,382
		5,879,083,143	**5,796,073,456**
Total Assets		**7,078,947,742**	**6,870,478,441**
Liabilities			
Current Liabilities			
Bank overdraft	15	2,603,485	1,569,372
Unspent conditional grants and receipts	16	1,004,295	6,024,486
Provisions	17	1,512,262	1,118,490
Payables from exchange transactions	18	2,437,110,277	2,247,112,381
Consumer deposits	19	36,177,187	35,269,819
		2,478,407,506	**2,291,094,548**
Non-Current Liabilities			
Employee benefit obligation	7	349,773,365	349,773,364
Provisions	17	50,144,032	49,025,542
		399,917,397	**398,798,906**
Total Liabilities		**2,878,324,903**	**2,689,893,454**
Net Assets		**4,200,622,839**	**4,180,584,987**
Accumulated surplus		4,200,622,838	4,180,584,990

* See Note 43

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	999,096,131	962,917,970
Rental of facilities and equipment	21	11,209,532	9,665,238
Commissions received	22	11,122,174	9,778,521
Other income	23	25,642,293	15,599,000
Interest received	24	152,986,405	107,151,515
Dividends received	24	17,251	14,608
Licences and permits	27	67,371	48,905
Total revenue from exchange transactions		**1,200,141,157**	**1,105,175,757**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	262,455,047	194,086,901
Transfer revenue			
Government grants & subsidies	26	527,662,693	586,347,372
Fines	53	10,592,300	11,631,450
Total revenue from non-exchange transactions		**800,710,040**	**792,065,723**
Total revenue		**2,000,851,197**	**1,897,241,480**
Expenditure			
Employee related costs	28	(598,808,795)	(546,265,099)
Remuneration of councillors	29	(27,189,599)	(25,449,280)
Depreciation and amortisation	30	-	(260,345,609)
Finance costs	31	(28,148,060)	(174,860,380)
Debt Impairment	32	(378,091,853)	(73,512,082)
Repairs and maintenance		(46,044,560)	(26,882,267)
Bulk purchases	33	(593,692,660)	(740,428,422)
Contracted services	34	(120,337,772)	(100,063,466)
General Expenses	35	(191,170,818)	(206,232,700)
Total expenditure		**(1,983,484,117)**	**(2,154,039,305)**
Operating surplus (deficit)		**17,367,080**	**(256,797,825)**
Actuarial gain on employee benefits	7	-	3,339,864
Fair value adjustments	36	(8,217)	17,125
Gain (loss) on disposal of assets and liabilities	54	1,448,982	(40,423,875)
		1,440,765	**(37,066,886)**
Surplus (deficit) for the year		**18,807,845**	**(293,864,711)**

* See Note 43

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2014	**4,474,449,702**	**4,474,449,702**
Changes in net assets		
Surplus for the year	(293,864,712)	(293,864,712)
Total changes	(293,864,712)	(293,864,712)
Restated* Balance at 01 July 2015	**4,181,814,994**	**4,181,814,994**
Changes in net assets		
Surplus for the year	18,807,844	18,807,844
Total changes	18,807,844	18,807,844
Balance at 30 June 2016	**4,200,622,838**	**4,200,622,838**

Note(s)

* See Note 43

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period and in some cases additional information was included in the accounting policies.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The municipality used the prime interest rate at year end to discount future cash flows.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for Property, plant and equipment. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Employee benefit obligation

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Provision for impairment of receivables

On consumer receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Accounting Policies

1.4 Investment property (continued)

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	5-30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

1.5 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Furniture and fixtures	Straight line	5 - 7 years
Transport assets	Straight line	4 - 15 years
Office equipment	Straight line	5 - 7 years
IT equipment	Straight line	3 - 10 years
Infrastructure	Straight line	5 - 100 years
Othee equipment	Straight line	2 - 20 years
Landfill rehabilitation asset	Straight line	8 - 20 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation commences when the asset is ready for its intended use and ceases when the asset is derecognised.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

Accounting Policies

1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;

1.8 Financial instruments (continued)

- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial assets	Financial asset measured at fair value
Other receivables	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Tax

Value added tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.10 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

1.12 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Identification

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

1.13 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

1.14 Employee benefits (continued)

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.14 Employee benefits (continued)

Other long term employee benefit

The municipality has an obligation to provide long service benefits to all of its employees. According to the rules of the long service benefit scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long benefits are accounted for through the statement of financial performance.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

A contingent liability is:
- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
(i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
(ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

1.17 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

1.18 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.22 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Accounting Policies

1.22 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

1.25 Budget information (continued)

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.28 Consumer deposits

Consumer deposits are subsequently recorded in accordance with the accounting policy of Trade and other payables.

1.29 Unspent conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 financial statements.

The impact of the amendment is not material.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 financial statements.

The impact of the amendment is not material.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 financial statements.

The impact of the amendment is not material.

Notes to the Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP

The objective of this Directive is to permit an entity to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This Directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this Directive allows an entity, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the entity elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the entity made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this Directive, an entity will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality has early adopted the standard for the first time in the 2016 financial statements.

The impact of the standard is not material.

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, an effective date has not yet been set by the Minister of Finance.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

2. New standards and interpretations (continued)

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date is not yet gazetted by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

The impact of this standard is currently being assessed.

GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

The impact of this standard is currently being assessed.

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

The impact of this standard is currently being assessed.

GRAP 109: Accounting by Principals and Agents

This Interpretation of the Standards of GRAP provides guidance to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

3. Investment property

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	502,979,732	(69,239,009)	433,740,723	502,979,732	(69,239,009)	433,740,723

Reconciliation of investment property - 2016

	Opening balance	**Total**
Investment property	433,740,723	433,740,723

Reconciliation of investment property - 2015

	Opening balance	**Depreciation**	**Total**
Investment property	440,432,702	(6,691,979)	433,740,723

Pledged as security

No property was pledged as security for any financial liability.

There are no contractual obligations on investment property.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Property, plant and equipment

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	223,069,176	-	223,069,176	223,069,176	-	223,069,176
Furniture and fixtures	11,635,474	(19,027,447)	(7,391,973)	11,543,891	(18,935,864)	(7,391,973)
Transport assets	118,987,820	(71,530,762)	47,457,058	117,582,423	(70,125,366)	47,457,057
Office equipment	4,995,842	(6,055,308)	(1,059,466)	4,947,036	(6,006,503)	(1,059,467)
IT equipment	10,628,304	(8,692,583)	1,935,721	10,495,649	(8,559,929)	1,935,720
Infrastructure	8,270,215,355	(3,775,928,896)	4,494,286,459	8,083,548,349	(3,592,639,485)	4,490,908,864
Other property, plant and equipment	18,616,868	(21,679,563)	(3,062,695)	18,335,899	(21,398,593)	(3,062,694)
Capital work in progress	610,332,978	-	610,332,978	534,913,669	-	534,913,669
Landfill rehabilitation assets	81,954,953	(14,186,510)	67,768,443	81,954,953	(14,186,510)	67,768,443
Total	**9,350,436,770**	**(3,917,101,069)**	**5,433,335,701**	**9,086,391,045**	**(3,731,852,250)**	**5,354,538,795**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Difference	**Additions**	**Total**
Land	223,069,176	-	-	223,069,176
Furniture and fixtures	(7,391,973)	-	-	(7,391,973)
Motor vehicles	47,457,058	-	-	47,457,058
Office equipment	(1,059,466)	-	-	(1,059,466)
IT equipment	1,935,721	-	-	1,935,721
Infrastructure	4,490,908,863	1	3,377,595	4,494,286,459
Other property, plant and equipment	(3,062,694)	-	-	(3,062,694)
Artwork	534,913,669	**(3,377,596)**	78,796,905	610,332,978
Other property, plant and equipment # 1	67,768,443	-	-	67,768,443
	5,354,538,797	**(3,377,595)**	**82,174,500**	**5,433,335,702**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Difference	Additions	Disposals	Transfers	Total
Land	223,069,176	-	-	-	-	223,069,176
Furniture and fixtures	12,942,990	-	(91,583)	(20,243,380)	-	(7,391,973)
Motor vehicles	49,158,671	-	(1,405,396)	(296,217)	-	47,457,058
Office equipment	4,068,986	-	(48,805)	(5,079,647)	-	(1,059,466)
IT equipment	5,194,815	1	(132,655)	(3,126,440)	-	1,935,721
Infrastructure	4,580,431,197	(155,953,366)	66,431,032	-	-	4,490,908,863
Other property, plant and equipment	9,499,267	1	(280,969)	(12,280,993)	-	(3,062,694)
Artwork	524,675,579	16,933,001	167,276,132	-	(173,971,043)	534,913,669
Other property, plant and equipment # 1	74,861,698	(72,153,642)	-	-	65,060,387	67,768,443
	5,483,902,379	**(211,174,005)**	**231,747,756**	**(41,026,677)**	**(108,910,656)**	**5,354,538,797**

Pledged as security

None of these assets were pledged as security.

Reconciliation of Work-in-Progress 2016

Reconciliation of Work-in-Progress 2015

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Deemed cost

Notes to the Financial Statements

Figures in Rand	2016	2015

5. Heritage assets

	2016			2015		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Historical buildings	4,747,835	-	4,747,835	4,747,835	-	4,747,835
Mayoral chains	2,356,514	-	2,356,514	2,356,514	-	2,356,514
Total	**7,104,349**	**-**	**7,104,349**	**7,104,349**	**-**	**7,104,349**

Reconciliation of heritage assets 2016

	Opening balance	**Total**
Historical buildings	4,747,835	4,747,835
Mayoral chains	2,356,514	2,356,514
	7,104,349	**7,104,349**

Reconciliation of heritage assets 2015

	Opening balance	**Total**
Historical buildings	4,747,835	4,747,835
Mayoral chains	2,356,514	2,356,514
	7,104,349	**7,104,349**

Pledged as security

None of these assets were pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

6. Other financial assets

	2016	2015
Designated at fair value		
Unlisted shares The unlisted shares consist of 17,238 (2015:17,238) equity shares in Senwes Limited and 26,435 (2015:26,435) equity shares in Senwesbel Limited.	330,990	339,207
At amortised cost		
RMB Asset Management (Guaranteed Investment Trust) The maturity date of the investment was 19 October 2015 with a guaranteed amount of R19,191,692. The investment was withdrawn on 07 April 2016. The guaranteed amount is valued at purchase yield on the assumption that it is held to maturity. Interest is earned at a guaranteed rate of 15.6% (2015:15.6%) per annum.	-	18,862,179
Total other financial assets	**330,990**	**19,201,386**
Non-current assets		
Designated at fair value	330,990	339,207
Current assets		
At amortised cost	-	18,862,179

Notes to the Financial Statements

Figures in Rand	2016	2015

6. Other financial assets (continued)

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1		
Class 1 - Unlisted shares	330,990	339,207

Renegotiated terms

None of the financial assets that are fully performing have been renegotiated in the last year.

Financial assets pledged as collateral

Collateral

Carrying value of financial assets pledged as collateral for liabilities or contingent liabilities	-	-

Notes to the Financial Statements

Figures in Rand	2016	2015

7. Employee benefit obligations

Post-retirement medical aid plan

The municipality has a post-employment medical aid fund for its pensioners. The post-retirement medical aid benefits are in accordance with Resolution 8 of the South African Local Government Bargaining Council (SALGBC), signed on 17 January 2003, which states that an employee who retires from employment with an employer and who immediately prior to his or her retirement, enjoyed the benefit of the subsidy of his or her medical aid contributions by his or her employer, will continue to receive a subsidy calculated as follows:

- If the employee is 55 years or older on 1 July 2003, his or her subsidy from the employer as at the date of retirement will be 60% to a maximum amount of the norm of the cost of his or her medical aid scheme contributions as at the day immediately prior to the date of his or her retirement;
- If the employee is 50 years or older on 1 July 2003, his or her subsidy will be 50% to a maximum amount of the norm of the cost of his or her medical scheme contributions as at the day immediately prior to the date of his or her retirement. The members are made up out of in-service members XXX (2014: 1,399) and continuation members XXX (2014: 218).

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:
- Bonitas
- Discovery
- Hosmed
- Key-health
- LA Health
- Samwumed

Long service benefits

The municipality's liability for long-service benefits relating to vested leave benefits to which employees may become entitled upon completion of five years service and every five years thereafter. These leave benefits are in accordance paragraph 11 of the South African Local Government Bargaining Council (SALGBC) collective agreement on conditions of service for the Free State division of SALGBC which was signed on July 2010.

In accordance with South African Local Government Bargaining Council (SALBGC) is sued circular 1 of 2011 (issued 27 June 2011 with an effective date of 1 March 2011), specific bonuses is payable to employees for long service. Bonuses are payable in the following scales:

Years of service completed	Percentage of annual salary as bonus	Additional leave days
> 10 Years	3%	10 days
> 15 Years	4%	10 days
> 20 Years	5%	15 days
> 25 Years	6%	15 days
> 30 Years	6%	15 days
> 35 Years	6%	15 days

The amounts recognised in the statement of financial position are as follows:

	2016	2015
Carrying value		
Present value of the employee benefit obligations-wholly unfunded	-	(349,773,364)
Undefined Difference	**(349,773,365)**	**-**
	(349,773,365)	**(349,773,364)**

These obligations are not a funded arrangement, i.e. no separate assets have been set aside currently to meet these obligations.

Changes in the present value of the defined benefit obligation are as follows:

	2016	2015
Opening balance	349,773,364	322,410,090
Net expense recognised in the statement of financial performance	-	27,363,274
	349,773,364	**349,773,364**

Figures in Rand	2016	2015

7. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Service cost	-	15,592,248
Interest cost	-	28,406,622
Actuarial (gains) losses	-	(3,339,864)
Expected benefits paid	-	(13,295,732)
	-	**27,363,274**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	-	(3,339,864)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	- %	9.00 %
Medical aid inflation rates	- %	8.00 %
Net discount rate	- %	0.93 %
Continuation percentage	- %	90.00 %

Benefit levels, for active members the projected contributions were used at retirement for their current scheme option and for pensioner members their current scheme option as at 2015.]

Retirement age, it has been assumed that both male and female members retire at age 63. No allowance has been made for early retirement either due to ill health or at the option of the member.

Continuation on medical aid at retirement, it was assumed that all surviving members to retirement will continue their medical aid membership in retirement.

Pre-retirement, mortality of continuation members and withdrawal rates are in accordance with SA56-62 male and female tables.

Post-retirement, mortality of continuation members and withdrawal rates are in accordance with PA(90) ultimate male and female tables with a 2 year reduction in age, assuming that there is a 4 year age difference between male and female spouse.

The valuation is based on the Projected Unit Credit valuation method.

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Employee benefit obligations	1	1
Service and interest costs	1	1

The municipality expects to pay benefits of R XXXX towards post-retirement medical aid and R XXXX towards long service benefits to its employee benefits in the next financial year.

Amounts for the current and previous four years are as follows:

	2016 R	**2015 R**	**2014 R**	**2013 R**	**2012 R**
Employee benefit obligation	-	(349,773,364)	(322,410,090)	(305,077,529)	(245,392,909)

Figures in Rand	2016	2015

7. Employee benefit obligations (continued)

Defined contribution plan

The municipality makes provision for post-retirement benefits to all employees and councilors, who belong to different defined retirement contribution plans which are administrated by various pension, provident and annuity funds.

These plans are subject to the Pension Fund Act, 1956 (Act No. 24 of 1956) and include defined contribution plans.

The municipality is under no obligation to cover any unfunded benefits. The only obligation of the municipality is to make the specified contributions.

The following plans are multi-employer funds and are defined contribution plans:
- South African Local Authorities Pension Fund (SALA)
- Free State Municipal Pension Fund (FSMPF)
- Municipal Councilors Pension Fund (MCPF)

Sufficient information was not available to use defined benefit accounting for the funds and it was accounted for as defined contribution plans due to the following reasons:
- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers;
- One set of financial statements are compiled for all the funds and not for each participating employer; and
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution ofthe participating employers.

This is in line with the exemption in GRAP 25 paragraph 31 which states that where information required for proper defined benefitaccounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.

The amount recognised as an expense for defined contribution plans is	-	27,363,274

8. Receivables from non-exchange transactions

Non current arrangements - rates	2,491,696	-
Allowance for impairment	(1,980,562)	-
	511,134	**-**

Receivables from non-exchange transactions pledged as security:

None of the consumer receivables were pledged as security.

Renegotiated terms:

None of the receivables that are fully performing have been renegotiated in the last year.

Fair value of receivables:

The carrying value of the consumer receivables recorded at amortised cost approximate their fair values.

9. Receivables from exchange transactions

Non current arrangements - services	20,257,060	21,059,890
Allowance for impairment	(16,196,814)	(20,709,508)
	4,060,246	**350,382**

Notes to the Financial Statements

Figures in Rand	2016	2015

9. Receivables from exchange transactions (continued)

Receivables from non-exchange transactions pledged as security:

None of the consumer receivables were pledged as security.

Renegotiated terms:

None of the receivables that are fully performing have been renegotiated in the last year

Fair value of receivables

The carrying value of the consumer receivables recorded at amortised cost approximate their fair values.

10. Inventories

	2016	2015
Consumable stores	7,499,133	7,318,736
Water in reservoirs and pipelines	2,095,518	2,095,518
	9,594,651	**9,414,254**

Stock losses due to theft (case number 596/06/2016)	81,239	-
Inventories recognised as an expense during the year - Water	430,828,678	399,000,441

Inventories recognised as an expense during the year - Refer to note 35.

Inventory pledged as security

None of the inventory was pledged as security for any financial liability of the municipality.

11. Other receivables

	2016	2015
Accrued interest	106,572	-
Consumer deposits receivable	5,884,740	5,038,282
Deposits	9,850	9,850
Other receivables	4,710,014	3,515,567
Salary error suspense account	12,904	-
Traffic fines receivable	17,915,150	10,189,647
	28,639,230	**18,753,346**

Other receivables pledged as security

None of the other receivables were pledged as security during the year.

Fair value of other receivables

The carrying value of consumer deposits approximate their fair values.

Other receivables past due but not impaired

None of the other receivables are considered to be impaired.

Notes to the Financial Statements

Figures in Rand	2016	2015

12. Receivables from non-exchange transactions

Consumer receivables - rates	304,278,800	284,193,116
Allowance for impairment - rates	(149,127,109)	(122,267,061)
Less: Non-current consumer receivables (arrangements)	(2,491,696)	-
Allowance for impairment - arrangements	1,980,562	-
	154,640,557	**161,926,055**

Receivables from non-exchange transactions pledged as security

None of the consumer receivables were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

None of the financial assets that are fully performing have been renegotiated in the last year.

The carrying value of consumer deposits approximate their fair values.

Receivables from non-exchange transactions past due but not impaired

The ageing of amounts past due but not impaired is as follows:

1 month past due	8,443,858	-
2 months past due	5,027,868	-
3 months past due	20,993,303	-

Rates aging		
Current (0-30 days)	20,396,614	13,788,969
31 - 60 days	12,175,846	8,156,426
61 - 90 days	11,269,804	7,184,257
91+ days	260,436,536	255,063,464
Less: Allowance for impairment	(149,127,109)	(122,267,061)
	155,151,691	**161,926,055**

13. VAT receivable

VAT	123,462,600	120,315,800

14. Receivables from exchange transactions

Gross balances		
Electricity	217,087,181	228,538,495
Water	845,907,960	794,540,710
Sewerage	315,954,686	279,258,716
Refuse	213,684,745	189,906,711
Other receivables	139,842,953	56,006,736
Unmetered consumption - water	44,359,766	35,286,038
Unmetered consumption - electricity	65,283,840	66,226,665
Less: Non-current consumer receivables (Arrangements)	(20,257,060)	(21,059,890)
Payments received in advance	-	(124,663,935)
	1,821,864,071	**1,504,040,246**

Notes to the Financial Statements

Figures in Rand	2016	2015

14. Receivables from exchange transactions (continued)

Less: Allowance for impairment		
Electricity	(107,695,432)	(75,035,288)
Water	(472,847,464)	(418,471,187)
Sewerage	(194,155,182)	(136,759,238)
Refuse	(133,942,834)	(95,288,227)
Other receivables	(57,412,743)	(55,598,595)
Less: Non-current consumer receivables (Arrangements)	16,196,814	20,709,508
	(949,856,841)	**(760,443,027)**

Net balance		
Electricity	109,391,749	153,503,207
Water	373,060,496	376,069,523
Sewerage	121,799,504	142,499,478
Refuse	79,741,911	94,618,484
Other receivables	82,430,211	408,141
Unmetered consumption - water	44,359,766	35,286,038
Unmetered consumption - electricity	65,283,840	66,226,665
Non-current consumer receivables (Arrangements)	(4,060,246)	(350,382)
Payments received in advance	-	(124,663,935)
	872,007,231	**743,597,219**

Electricity		
Current (0 -30 days)	36,294,677	73,844,824
31 - 60 days	14,550,075	17,712,096
61 - 90 days	6,983,545	7,964,863
91+ days	159,258,884	129,016,712
Less: Impairment	(107,695,432)	(75,035,288)
	109,391,749	**153,503,207**

Water		
Current (0 -30 days)	53,473,992	66,546,240
31 - 60 days	33,175,663	36,332,623
61 - 90 days	21,276,106	22,257,429
91+ days	737,982,200	669,404,418
Less: Impairment	(472,847,464)	(418,471,187)
	373,060,497	**376,069,523**

Sewerage		
Current (0 -30 days)	11,311,220	10,725,313
31 - 60 days	8,829,417	9,053,253
61 - 90 days	8,206,870	7,831,605
91+ days	287,607,179	251,648,506
Less: Impairment	(194,155,182)	(121,944,636)
	121,799,504	**157,314,041**

Refuse		
Current (0 -30 days)	6,927,306	6,487,255
31 - 60 days	5,306,232	5,050,179
61 - 90 days	5,027,914	4,690,941
91+ days	196,423,293	173,678,336
Less: Impairment	(133,942,834)	(84,502,983)
	79,741,911	**105,403,728**

Notes to the Financial Statements

Figures in Rand	2016	2015

14. Receivables from exchange transactions (continued)

Other		
Current (0 -30 days)	3,572,846	2,580,121
31 - 60 days	3,344,486	3,087,982
61 - 90 days	2,886,997	3,251,404
91+ days	130,038,625	109,719,091
Less: Impairment	(57,412,743)	(54,218,383)
	82,430,211	**64,420,215**
Unmetered consumption - water		
Current (0 -30 days)	44,359,766	35,286,038
Unmetered consumption - electricity		
Current (0 -30 days)	65,283,840	66,226,665

Notes to the Financial Statements

Figures in Rand	2016	2015

14. Receivables from exchange transactions (continued)

Summary of receivables by customer classification

Consumers		
Current (0 -30 days)	79,005,751	62,302,916
31 - 60 days	54,850,684	48,381,987
61 - 90 days	39,260,011	32,979,223
91+ days	1,389,090,723	1,020,813,715
	1,562,207,169	1,164,477,841
Less: Allowance for impairment	(906,324,686)	(489,916,759)
	655,882,483	**674,561,082**

Business, industrial and commercial		
Current (0 -30 days)	31,279,626	29,769,887
31 - 60 days	14,093,803	14,164,406
61 - 90 days	9,271,877	9,422,022
91+ days	314,384,152	252,184,480
	369,029,458	305,540,795
Less: Allowance for impairment	(170,972,496)	(109,829,170)
	198,056,962	**195,711,625**

National and provincial government		
Current (0 -30 days)	7,893,944	8,255,756
31 - 60 days	5,858,899	5,615,972
61 - 90 days	4,685,234	3,398,569
91+ days	20,949,651	142,851,229
	39,387,728	160,121,526
Less: Allowance for impairment	-	(59,136,025)
	39,387,728	**100,985,501**

Indigents		
Current (0 -30 days)	26,454	8,906,424
31 - 60 days	87,306	9,191,220
61 - 90 days	41,379	5,363,401
91+ days	2,559,767	123,933,496
	2,714,906	147,394,541
Less: Allowance for impairment	(2,714,906)	(147,394,541)
	-	**-**

Farms and agriculture		
Current (0 -30 days)	2,962,810	2,105,876
31 - 60 days	2,491,026	2,038,974
61 - 90 days	2,392,735	2,017,283
91+ days	44,761,283	48,747,647
Less: Allowance for impairment	(35,168,677)	(23,924,416)
	17,439,177	**30,985,364**

Consumer receivables past due but not impaired

The ageing of amounts past due but not impaired is as follows:

1 month past due	8,443,858	40,879,048
2 months past due	5,027,868	27,542,242
3 months past due	20,993,303	822,507,422

Notes to the Financial Statements

Figures in Rand	2016	2015

14. Receivables from exchange transactions (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(903,419,595)	(1,785,003,011)
Contributions to allowance	378,091,853	(73,512,082)
Debt impairment written off against allowance	166,330,683	955,095,498
	(1,115,180,765)	**(903,419,595)**

Consumer receivables pledged as security

None of the consumer receivables were pledged as security.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

None of the financial assets that are fully performing have been renegotiated in the last year.

The carrying value of consumer deposits approximate their fair values.

15. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand and advances	9,474	9,474
Short-term deposits	10,637,028	741,082
Collections account	873,828	785,576
Bank overdraft	(2,603,485)	(1,569,372)
	8,916,845	**(33,240)**

Current assets	11,520,330	1,536,132
Current liabilities	(2,603,485)	(1,569,372)
	8,916,845	**(33,240)**

No restrictions have been imposed on the municipality in terms of the availability of its cash and cash equivalents for use.

The total amount of undrawn facilities available for future operating activities and commitments are as follows:

ACB mag tape debit facility	2,000,000	2,000,000
Housing guarantee	500,000	500,000
Fleet card	60,000	60,000

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings or historical information about counterparty default rates.

Cash and cash equivalents pledged as collateral

None of the cash and cash equivalents were pledged as collateral.

Figures in Rand	2016	2015

15. Consumer debtors disclosure (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Primary Cheque account Acc no (40-5370-5465)	(482,599)	2,187,120	1,275,549	(836,542)	(775,550)	1,853,697
ABSA Market Cheque account Acc no (40-5644-3399)	918,032	1,497,072	2,116,003	(1,766,943)	(793,822)	(913,370)
FNB Collections Cheque account Acc No (542-3117-3409)	873,828	785,576	701,726	873,828	785,576	700,915
ABSA Savings account Acc no (90-9461-7107)	9,870,795	1,000	1,000	9,870,795	1,000	1,000
ABSA Savings account Acc no (91-0668-4115)	1,000	1,201	1,000	1,000	1,201	1,000
ABSA Savings account Acc no (91-1114-1338)	1,000	1,011	1,000	1,000	1,011	1,000
ABSA Savings account Acc no (91-0668-4238)	1,000	1,077	1,000	1,000	1,077	1,000
ABSA Savings account Acc no (91-0653-8138)	-	-	50	-	-	50
ABSA Savings account Acc no (91-0668-4157)	1,000	1,001	1,000	1,000	1,001	1,000
ABSA Savings account Acc no (91-2351-5666)	1,000	1,002	1,002	1,000	1,002	1,002
FNB Call account Acc no (614-0400-1177)	5,140	5,074	5,074	5,140	5,074	5,074
FNB Call account Acc no (620-0350-3019)	756,093	709,079	709,079	756,093	709,079	709,079
Total	**11,946,289**	**5,190,213**	**4,813,483**	**8,907,371**	**(63,351)**	**2,361,447**

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Integrated national electrification programme (INEP)	600,001	1,018,931
Energy efficiency and demand side management programme (EEDSM)	404,294	1,936,848
Extended public work programme (EPWP)	-	743,889
Sector education and training authority (SETA)	-	2,324,817
	1,004,295	**6,024,485**

Movement during the year

Unspent at the beginning of the year	6,024,486	7,347,170
Additions during the year	522,142,502	585,024,688
Income recognition during the year	(527,162,693)	(586,347,372)
	1,004,295	**6,024,486**

The nature and extent of government grants recognised in the financial statements are an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 26 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

17. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Discounting	Total
Rehabilitation of landfill sites	50,144,032	1,512,262	51,656,294

Reconciliation of provisions - 2015

	Opening Balance	Discounting	Total
Rehabilitation of landfill sites	49,363,059	780,973	50,144,032

	2016	2015
Non-current liabilities	50,144,032	49,025,542
Current liabilities	1,512,262	1,118,490
	51,656,294	**50,144,032**

Rehabilitation of landfill sites

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites to a condition whereby it complies to the permit requirements issued in terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No. 28 of 2002).

Management has included the best estimated amount as the actual amount is uncertain. The payment of total closure and rehabilitation dates are uncertain.

The provision has been determined by an independent firm of consultants through investigation to determine the best estimated rehabilitation costs for the waste disposal sites at the end of its useful life.

The discount rate used for the landfill sites is based on a risk free rate which is in line with the useful life of the landfill sites.

The municipality has five active landfill sites, as per the asset register:

Landfill	Estimated useful life
Allanridge	9 years (2014: 10 years)
Henneman (Phomolong)	12 years (2014: 13 years)
Odendaalsrus	24 years (2014: 25 years)
Virginia (Transfer Station)	12 years (2014: 13 years)
Bronville (Welkom)	6 years (2014: 7 years)

There were no landfill sites developed, planned, rehabilitated or closed during the current or prior year.

Discount rate assumptions (Additional information to the prior year financial statements)

The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

	30 June 2016	30 June 2015	30 June 2014
Discount rate (D)	8.51 %	9.08 %	8.76 %
Consumer price inflation (C)	6.82 %	6.70 %	5.58 %
Net discount rate ((1+D)/(1+H)-1)	1.58 %	2.23 %	3.02 %

Movement in the closing balance of the provision

Active landfill sites	Opening balance	Movement during the year	Closing balance
Allanridge	4,833,489	145,770	4,979,259
Henneman (Phomolong)	8,056,132	242,960	8,299,092

Notes to the Financial Statements

Figures in Rand		2016	2015

17. Provisions (continued)

Odendaalsrus	12,649,264	381,481	13,030,745
Virginia (Transfer Station)	2,050,839	61,850	2,112,689
Bronville (Welkom)	22,554,308	680,201	23,234,509
	50,144,032	**1,512,262**	**51,656,294**

18. Payables from exchange transactions

Accrued bonus	8,390,031	9,092,246
Accrued leave pay	64,977,157	53,604,855
Deposits received - Halls and facilities	31,904	20,463
Eskom	619,760,862	619,760,862
Payments received in advance from consumer receivables	37,909,845	31,562,545
Salary control accounts	26,684,174	24,472,852
Sedibeng Water Board	1,502,021,591	1,226,858,308
Sundry payables	669	-
Trade payables	177,334,044	281,740,250
	2,437,110,277	**2,247,112,381**

Fair value of trade and other payables

The carrying value of consumer deposits approximate their fair values.

19. Consumer deposits

Electricity and water	36,173,545	35,266,177
Key deposits	3,642	3,642
	36,177,187	**35,269,819**

Guarantees held in lieu of electricity and water deposits amounted to R 6,040,465 (2015: R 2,792,366)

Deposits are paid by consumers on application for new electricity and water connections. The deposits are repaid when the electricity and water connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account balance.

No interest is paid to consumers on deposits held.

The carrying value of consumer deposits approximate their fair values.

20. Service charges

Sale of electricity	492,202,494	479,770,228
Sale of water	345,375,383	291,603,849
Sewerage and sanitation charges	128,256,386	119,016,747
Refuse removal	78,928,071	72,527,147
Less: Income foregone - indigents	(45,666,204)	-
	999,096,130	**962,917,971**

21. Rental of facilities and equipment

Premises		
Premises	10,882,992	9,386,493
Facilities and equipment		
Rental of facilities	326,540	278,744
	11,209,532	**9,665,237**

Notes to the Financial Statements

Figures in Rand	2016	2015

22. Commission received

Commissions received	11,122,174	9,778,521

23. Other income

Connection fees	834,970	786,379
Disconnection fees	15,595,105	7,473,626
Meter fees	1,905,176	1,240,770
Monitoring fees	942,173	972,548
Services rendered	2,414,801	2,523,756
Sundry income	2,160,162	1,357,527
Sundry services	1,789,906	1,244,394
	25,642,293	**15,599,000**

24. Interest and dividends received

Dividend revenue		
Unlisted shares - Local	17,251	14,608
Interest revenue		
Bank and investments	3,230,005	4,351,619
Interest charged on consumer receivables	123,822,672	102,799,896
Interest on Sedibeng Water written off	25,933,728	-
	152,986,405	**107,151,515**
	153,003,656	**107,166,123**

25. Property rates

Rates received

Commercial	169,549,572	68,780,684
Residential	83,795,254	51,777,106
Small holdings and farms	8,208,120	43,773,341
State	1,179,009	29,755,770
Less: Income foregone - indigents	(276,908)	-
	262,455,047	**194,086,901**

Included in property rates are income forgone. Income forgone can be defined as any income that the municipality is entitled to by law to levy, but which has subsequently been forgone by way of rebate or remission.

Valuations

Commercial	-	2,345,932,900
Residential	-	11,065,242,201
Small holdings and farms	-	2,904,799,620
State	-	1,362,493,600
Exempted	-	1,348,750,275
	-	**19,027,218,596**

Valuations on land and buildings are performed every four years. The last general valuation roll came into effect on 1 July 2015, and is based on market-related values. Supplementary valuations are processed when completed by the valuer annually, to take into account changes to individual property values due to alterations and subdivisions.

The first R 75,000 of the valuation of residential property is exempted from rates.

Notes to the Financial Statements

Figures in Rand	2016	2015

26. Government grants and subsidies

Operating grants		
Equitable share	402,908,668	416,018,000
Extended public works program (EPWP)	1,072,000	395,111
Finance management grant (FMG)	1,675,000	1,600,000
Municipal systems improvement grant (MSIG)	930,000	934,000
Provincial Treasury (audit fees)	500,000	-
Sector education and training authority (SETA)	3,330,319	312,059
	410,415,987	**419,259,170**
Capital grants		
Energy efficiency and demand side management programme (EEDSM)	2,595,706	5,908,767
Integrated national electrification program (INEP)	-	3,872,824
Municipal infrastructure grant (MIG)	114,651,000	157,306,611
	117,246,706	**167,088,202**
	527,662,693	**586,347,372**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	124,754,025	170,329,372
Unconditional grants received	402,908,668	416,018,000
	527,662,693	**586,347,372**

Equitable Share

Current-year receipts	402,908,668	416,018,000
Conditions met - transferred to revenue	(402,908,668)	(416,018,000)
	-	**-**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal infrastructure grant (MIG)

Balance unspent at beginning of year	-	1,060,611
Current-year receipts	114,651,000	156,246,000
Conditions met - transferred to revenue	(114,651,000)	(157,306,611)
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

* In terms of the MFMA Circular No. 48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects.

This grant is used to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households.

Finance Management Grant (FMG)

Current-year receipts	1,675,000	1,600,000
Conditions met - transferred to revenue	(1,675,000)	(1,600,000)
	-	**-**

Figures in Rand	2016	2015

26. Government grants and subsidies (continued)

The purpose of this grant is to promote and support reforms to financial management and the implementation of the MFMA.

Municipal systems improvement grant (MSIG)

Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(934,000)
	-	-

The purpose of this grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government and the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Integrated national electrification program (INEP)

Balance unspent at beginning of year	1,018,931	691,755
Current-year receipts	600,000	4,200,000
Conditions met - transferred to revenue	-	(3,872,824)
Grants withheld by National Treasury through equitable share*	(1,018,930)	-
	600,001	**1,018,931**

Conditions still to be met - remain liabilities (see note 16).

This grant is used to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure.

* In terms of the MFMA Circular No. 48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects.

Energy efficiency and demand side management programme (EEDSM)

Balance unspent at beginning of year	1,936,848	3,845,615
Current-year receipts	3,000,000	4,000,000
Conditions met - transferred to revenue	(2,595,706)	(5,908,767)
Grants withheld by National Treasury through equitable share*	(1,936,848)	-
	404,294	**1,936,848**

Conditions still to be met - remain liabilities (see note 16).

The purpose of this grant is to assist the municipalities to reduce their energy consumption through deployment of electricity and other energy saving measures.

* In terms of the MFMA Circular No. 48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects.

Expanded public works programme (EPWP)

Balance unspent at beginning of year	743,889	-
Current-year receipts	1,072,000	1,139,000
Conditions met - transferred to revenue	(1,072,000)	(395,111)
Grants withheld by National Treasury through equitable share*	(743,889)	-
	-	**743,889**

Conditions still to be met - remain liabilities (see note 16).

Figures in Rand	2016	2015

26. Government grants and subsidies (continued)

The purpose of this grant is to subsidise municipalities to expand on work creation efforts through the use of labour intensive delivery methods in identified focus areas.

* In terms of the MFMA Circular No. 48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects.

Sector education and training authority (SETA)

Balance unspent at beginning of year	2,324,817	1,749,189
Current-year receipts	1,005,502	887,687
Conditions met - transferred to revenue	(3,330,319)	(312,059)
	-	**2,324,817**

Conditions still to be met - remain liabilities (see note 16).

The purpose of this grant is to do skills development among employees and improve the auditing skills for municipalities.

Provincial Treasury

Current-year receipts	500,000	-
Conditions met - transferred to revenue	(500,000)	-
	-	**-**

Provincial Treasury paid audit fees on behalf of the municipality to the Auditor General.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, 2014 (Act No. 10 of 2014), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

27. Licences and permits

Licences and permits	67,371	48,905

Notes to the Financial Statements

Figures in Rand	2016	2015

28. Employee related costs

Basic salaries	342,152,912	317,750,533
Bonuses	23,495,894	21,221,455
Pension	47,253,894	44,178,451
Other long term employee benefits	2,282,578	4,195,887
Employee benefits - medical aid	8,032,390	9,511,550
Group life insurance	1,353,647	1,248,962
Housing allowances	3,676,556	5,581,889
Leave pay provision charge	17,771,803	8,936,014
Medical aid	38,472,070	34,415,811
Other allowances	19,598,254	17,141,638
Overtime payments	60,418,452	49,850,513
Transport allowance	30,859,660	29,055,401
UIF	3,440,683	3,176,995
	598,808,793	**546,265,099**

Remuneration of municipal manager - Ramathebane G

Annual Remuneration	-	120,967
Contributions to UIF, Medical and Pension Funds	-	301,946
	-	**422,913**

Remuneration of municipal manager - Lepheana MF

Annual Remuneration	1,745,493	812,843
Contributions to UIF, Medical and Pension Funds	43,846	14,450
	1,789,339	**827,293**

Remuneration of chief financial officer - Tsoaeli ET

Annual Remuneration	1,005,997	933,674
Car Allowance	363,894	363,894
Contributions to UIF, Medical and Pension Funds	182,864	173,475
	1,552,755	**1,471,043**

Remuneration of director infrastructure - Tlhabane HB

Annual Remuneration	899,424	148,336
Car Allowance	240,000	40,000
Contributions to UIF, Medical and Pension Funds	28,277	4,595
	1,167,701	**192,931**

The Director Infrastructure was appointed in May 2015, thus the remuneration reflected in the prior financial year is for a period of 2 months.

Remuneration of director corporate services - Lepheana MF

Annual Remuneration	-	782,534
Contributions to UIF, Medical and Pension Funds	-	1,041
	-	**783,575**

Remuneration of director corporate services - Wetes

Annual Remuneration	994,699	251,260

Figures in Rand	2016	2015

28. Employee related costs (continued)

Contributions to UIF, Medical and Pension Funds	25,011	446
	1,019,710	**251,706**

The Director Corporate Services was appointed in April 2015, thus the remuneration reflected in the prior financial year is for a period of 3 months.

Remuneration director strategic support services - Makhubu S

Annual Remuneration	1,156,318	702,486
Contributions to UIF, Medical and Pension Funds	24,913	892
	1,181,231	**703,378**

Remuneration director strategic support services - Makofane TB

Annual Remuneration	-	475,174
Contributions to UIF, Medical and Pension Funds	-	7,153
	-	**482,327**

The Director Strategic Support Services was appointed in February 2015, thus the remuneration reflected in the prior financial year is for a period of 5 months.

Remuneration of director community services - Mogopodi MRE

Annual Remuneration	989,446	889,492
Car Allowance	143,319	143,319
Contributions to UIF, Medical and Pension Funds	171,094	162,516
	1,303,859	**1,195,327**

Remuneration director local economic development - Msweli XF

Annual Remuneration	1,152,104	1,084,299
Car Allowance	132,000	132,000
Contributions to UIF, Medical and Pension Funds	47,731	45,201
	1,331,835	**1,261,500**

29. Remuneration of councillors

Executive Major	963,732	901,590
Councillors	26,225,867	24,547,690
	27,189,599	**25,449,280**

Reclassification of amounts: Prior year

The following accounts were combined as disclosed in the prior year financial statements; Mayoral Committee Members, Councillors - Part time, Speaker as one individual account namely other Councillors.

29. Remuneration of councillors (continued)

In-kind benefits

The Mayoral Committee Members are full-time employees of the municipality. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has use of separate Council owned vehicle for official duties, one full time driver and a bodyguard.

The Speaker has use of separate Council owned vehicle for official duties and a part time driver.

Details of remuneration for the year ended 30 June 2016

Name of councillor	Annual remuneration	Car allowance	Contributions to UIF, medical and pension funds	30 June 2016 Total
Badenhorst MJ	202,865	69,471	26,415	298,751
Banyane ME	202,865	69,471	26,415	298,751
Beneke R	202,865	69,471	26,415	298,751
Botha PF	187,839	69,471	41,441	298,751
Chaka CP	202,865	69,471	26,415	298,751
Dali VN	187,839	69,471	41,441	298,751
De Villiers MT	202,865	69,471	26,415	298,751
Fanie DS	202,865	69,471	26,415	298,751
Fourie JJC	202,865	69,471	26,415	298,751
Kabi M	187,839	69,471	41,441	298,751
Khalipha TD	187,839	69,471	41,441	298,751
Kockera SC	187,839	69,471	41,441	298,751
Mabote TL	202,865	69,471	26,415	298,751
Madumise MM	202,865	69,471	26,415	298,751
Mafa DM	187,839	69,471	41,441	298,751
Mafongosi ZV	202,865	69,471	26,415	298,751
Makgowe PV	187,839	69,471	41,441	298,751
Malefane DE	202,865	69,471	26,415	298,751
Marais JS	229,280	69,471	-	298,751
Masienyane MD	428,361	161,335	76,512	666,208
Mbambo AX	187,839	69,471	41,441	298,751
Mbana AM	458,540	172,858	80,903	712,301
Meli TS	187,839	69,471	41,441	298,751
Menyatso KJ	461,044	172,858	78,399	712,301
Mfebe MSE	458,540	172,858	80,903	712,301
Mholo PP	202,865	69,471	26,415	298,751
Mlangeni MG	202,865	69,471	26,415	298,751
Mokhomo HA	187,839	69,471	41,441	298,751
Mokotedi TG	202,865	69,471	26,415	298,751
Molelekoa PMI	202,865	69,471	26,415	298,751
Molelekoa PA	187,839	69,471	41,441	298,751
Molete TN	202,865	69,471	26,415	298,751
Molupe RT	187,839	69,471	41,441	298,751
Monjovo NE	187,839	69,471	41,441	298,751
Morris VR	187,839	69,471	41,441	298,751
Mosala MS	202,865	69,471	26,415	298,751
Mothege MA	202,865	69,471	26,415	298,751
Motshabi MP	473,566	172,858	65,877	712,301
Mphikeleli MA	202,865	69,471	26,415	298,751
Naude HJ	202,865	69,471	26,415	298,751
Ngangelizwe S	630,392	230,478	102,862	963,732
Nqeobo ME	151,957	52,103	20,003	224,063
Ntlele KI	202,865	69,471	26,415	298,751
Ntsebeng MH	458,540	172,858	80,903	712,301

29. Remuneration of councillors (continued)

Petleki KI	187,839	69,471	41,441	298,751
Phetise ME	187,839	69,471	41,441	298,751
Pina NJ	202,865	69,471	26,415	298,751
Qwesha GL	187,839	69,471	41,441	298,751
Radebe MC	187,839	69,471	41,441	298,751
Radebe ML	458,540	172,858	80,903	712,301
Riet MI	202,865	69,471	26,415	298,751
Rubulana L	473,566	172,858	65,877	712,301
Sephiri MJ	458,540	172,858	80,903	712,301
Sifatya Z	202,865	69,471	26,415	298,751
Speelman NW	202,865	69,471	26,415	298,751
Stofile B	488,720	184,382	85,295	758,397
Styger A	202,865	69,471	26,415	298,751
Taliwe FE	473,566	172,858	65,877	712,301
Taljaard SDM	187,839	69,471	41,441	298,751
Thateng MJ	202,865	69,471	26,415	298,751
Thelingoane TJ	202,865	69,471	26,415	298,751
Tlake KR	187,839	69,471	41,441	298,751
Tlhone ML	567,700	48,000	96,601	712,301
Tsatsa SJ	187,839	69,471	41,441	298,751
Tsubane ME	187,839	69,471	41,441	298,751
Tsubella KS	233,270	34,800	30,681	298,751
Twala MJ	473,566	172,858	65,877	712,301
Van Rooyen MS	202,865	69,471	26,415	298,751
Van Rooyen KV	202,865	69,471	26,415	298,751
Van Schalkwyk HCT	202,865	69,471	26,415	298,751
Vanga NM	187,839	69,471	41,441	298,751
	17,986,800	**6,260,583**	**2,930,384**	**27,177,767**

Details of remuneration for the year ended 30 June 2015

Name of councillor	Annual remuneration	Car allowance	Contributions to UIF, medical and pension funds	30 June 2015 Total
Badenhorst MJ	-	-	96,882	96,882
Banyane ME	-	-	1	1
	-	**-**	**96,883**	**96,883**

30. Depreciation and amortisation

	2016	2015
Property, plant and equipment	-	253,653,630
Investment property	-	6,691,979
	-	**260,345,609**

31. Finance costs

	2016	2015
Employee benefits	-	28,406,622
Trade and other payables	26,521,262	147,211,207
Bank	114,537	(1,538,421)
Provisions	1,512,262	780,973
	28,148,061	**174,860,381**

32. Debt impairment

	2016	2015
Contributions to bad debt provision	378,091,853	73,512,082

Notes to the Financial Statements

Figures in Rand	2016	2015

33. Bulk purchases

Electricity	162,863,982	341,427,981
Water	430,828,678	399,000,441
	593,692,660	**740,428,422**

34. Contracted services

Legal services	21,060,203	17,845,448
Meter reading services	17,325,564	17,683,977
Professional services	38,381,452	28,834,306
Security services	36,094,364	27,740,100
Valuation services	7,476,188	7,959,635
	120,337,771	**100,063,466**

35. General expenses

Advertising	5,156,036	4,107,147
Audit fees	7,171,040	5,564,863
Bank charges	2,965,664	2,857,784
Cleaning	1,135,518	841,354
Community development and training	1,486,191	4,022,238
Conferences and seminars	32,500	49,593
Donations	-	112,200
Entertainment	471,405	1,124,815
Insurance	34,327,170	29,050,115
License fees	5,238,851	2,706,817
Marketing	25,500	52,412
Medical expenses	220	44,336
Motor vehicle expenses	33,137,273	40,841,592
Operating cost of equipment	13,345,194	25,035,381
Pest control	132,552	102,807
Printing and stationery	2,294,774	2,039,439
Skills development levies	5,260,263	4,898,497
Subscriptions and membership fees	6,230,417	30,612,652
Subsistence and travel	3,377,330	3,360,053
Sundry expenses	662,434	958,314
Telephone and fax	14,196,390	13,349,156
Training	2,149,585	2,108,892
Utilities (Water and electricity)	27,276,067	30,165,942
Uniforms	9,036,132	1,514,415
Assets expensed	961,245	506,924
Work in progress to be cleared	15,110,966	-
Chemicals	(9,900)	204,962
	191,170,817	**206,232,700**

36. Fair value adjustments

Other financial assets		
• Other financial assets (Designated as at FV through P&L	(8,217)	17,125

37. Auditors' remuneration

Fees	7,171,040	5,564,863

Notes to the Financial Statements

Figures in Rand	2016	2015

38. Cash generated from operations

	2016	2015
Surplus (deficit)	18,807,844	(293,864,712)
Adjustments for:		
Depreciation and amortisation	-	260,345,609
(Loss) gain on sale of assets and liabilities	(1,448,982)	40,423,875
Fair value adjustments	8,217	(17,125)
Debt impairment	378,091,853	73,512,082
Movements in retirement benefit assets and liabilities	1	27,363,274
Movements in provisions	1,512,262	780,973
Changes in working capital:		
Inventories	(180,397)	(428,960)
Other receivables	(9,885,884)	(7,555,066)
Consumer debtors	(506,501,864)	(348,262,390)
Other receivables from non-exchange transactions	7,285,498	(72,657,925)
Payables from exchange transactions	189,997,896	577,520,119
VAT	(3,146,800)	(101,953,032)
Unspent conditional grants and receipts	(5,020,191)	(1,322,685)
Consumer deposits	907,368	(352,002)
	70,426,821	**153,532,035**

39. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	At cost	Total
Other receivables	-	28,639,230	28,639,230
Receivables from non-exchange transactions	-	154,640,557	154,640,557
Receivables from exchange transactions	-	872,007,231	872,007,231
Cash and cash equivalents	-	11,520,330	11,520,330
Other financial assets	330,990	-	330,990
Receivables from non-exchange transactions (non-current)	-	511,134	511,134
Receivables from exchange transactions (non-current)	-	4,060,246	4,060,246
	330,990	**1,071,378,728**	**1,071,709,718**

Financial liabilities

	At cost	Total
Payables from exchange transactions	2,437,110,277	2,437,110,277
Consumer deposits	36,177,187	36,177,187
Unspent conditional grants and receipts	1,004,295	1,004,295
Cash and cash equivalents (bank overdraft)	2,603,485	2,603,485
	2,476,895,244	**2,476,895,244**

2015

Financial assets

	At fair value	At cost	Total
Other receivables	-	18,753,346	18,753,346
Receivables from non-exchange transactions	-	161,926,055	161,926,055
Receivables from exchange transactions	-	743,597,219	743,597,219
Cash and cash equivalents	-	1,536,132	1,536,132
Other financial assets	19,201,386	-	19,201,386

Figures in Rand		2016	2015

. Financial instruments disclosure (continued)

Receivables from exchange transactions (non-current)	-	350,382	350,382
	19,201,386	**926,163,134**	**945,364,520**

Financial liabilities

	At cost	Total
Payables from exchange transactions	2,247,112,381	2,247,112,381
Consumer deposits	35,269,819	35,269,819
Unspent conditional grants and receipts	6,024,486	6,024,486
Cash and cash equivalents (bank overdraft)	1,569,372	1,569,372
	2,289,976,058	**2,289,976,058**

40. Commitments

Authorised capital expenditure

	2016	2015
Already contracted for but not provided for		
• Property, plant and equipment	-	52,774,117
Total capital commitments		
Already contracted for but not provided for	-	52,774,117

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

	2016	2015
Minimum lease payments due		
- within one year	-	138,279
- in second to fifth year inclusive	-	26,459
	-	**164,738**

The municipality has operating lease agreements for the following classes of assets:
- Motor vehicles
- Software licenses

Leases are negotiated for an average term of three years and rentals are fixed for the three years. No contingent rent is payable.

Operating leases - as lessor (income)

Certain of the municipality's equipment is held to generate rental income. Rental of equipment is expected to generate rental yields of -% on an ongoing basis. Lease agreements are non-cancellable and have terms from 3 to 6 years. There are no contingent rents receivable.

Figures in Rand	2016	2015

41. Contingencies

Several litigation claims are in the process against the municipality, the detail are as follows:

Contingent liabilities

	2016	2015
Fujitsu Services (Pty) Ltd The municipality was issued with a combined summons from Futjitsu Services (Pty) Ltd. Fujitsu Services (Pty) Ltd alleged that a contract was intered into for "customer improvement service framework agreement".	-	7,051,943
Chief Chunda & Associates On 28 June 2013, the municipality was served with summons from Chief Chunda & Associates. The service provider alleges that they were appointed for the implementation of a water conservation and demand management program in February 2011. They further alleged to have discharged their obligations as per the agreement and as a result of the municipality's unlawful conduct he had suffered damages.	-	6,710,263
Afribatho Design During October 2013, notice of proposed legal proceedings and letter of demand was issued by Messrs Symington & De Kok acting on behalf of the plaintiff. Subsequently a summons as served to the municipality on 22 November 2013 by the plaintiff claiming payment together with interests for professional services rendered in respect of the service agreement. The municipality is defending the main action and application for exception is scheduled for August 2014.	-	5,870,235
Tanker Project Solutions CC The municipality was issued with a combined summons from Tanker Project Solutions CC claiming payment. Tanker Project Solutions CC alleged that they entered into a written agreement wherein they would act as a consultant for the municipality in respect of the planning, design, supervision of infrastructure projects, development and implementation of technical assistance projects in terms of tender notice 29/2009.	-	3,000,000
MMS Collections (Pty) Ltd The municipality was issued with letter of demand, claiming payment for an amount alleged to be agreed between the parties involved. The municipality has since instructed its attorneys to settle the matter out of court. The municipality is engaging with the plaintiff attorneys on settlement negotiations.	-	2,870,649
Ramabulana Investment Services (Pty) Ltd The municipality was served with combined summons from Ramabulana Investment Municipality Services (Pty) Ltd. The plaintiff alleges that they have performed in terms of the contract and the defendants are refusing / reluctant to remunerate for service rendered. The municipality has opposed the application and in addition has also filed a counter application.	-	1,517,941
Mr. F S Sale & 82 Others The plaintiffs in the matter herein alleges that they are entitled to certain amount of payment for work performed on Saturdays and Sundays since 2004. They further allege that notwithstanding their demands the municipality refuses and/or neglects to pay such services. A round table meeting has been arranged with respective departments on a way forward and in an attempt to establish the defence.	-	1,579,966

Gain Industries CC & Craft Hydraulic Services

Figures in Rand	2016	2015

41. Contingencies (continued)

On 23 April 2013, the municipality was served with summons by the plaintiff. Plaintiff alleges that he rendered professional services to the municipality during 2012 on the municipality's special request and instance. The matter has been set down for 28-29 October 2014.	-	360,628

Mr. J J Human

Mr. Human was appointed as an audit committee member for the municipality. He further indicated that subsequent to his appointment he attended several meetings as scheduled. He was paid R 11,855 for all sittings as well as travel costs however there are still amounts outstanding. On 29 April 2013 Mr. Human issued summons against the municipality.	-	19,422

Dumansi Trading

Served with Summons demanding payment of R 209,247 (two hundred and nine thousand, two hundred and forty six rand and seventy one cents). The amount claimed is alleged to be for Cession Agreement entered into the Municipality and Patsa Civil Works.	-	209,247

De Bruin Trust

On the 30th July 2014, Municipality was served with a letter of demand together with Summons ,claiming payment in the sum of R305,663 (three hundred and five thousand , six hundred and sixty two rand and fifty nine cents) alleged to be payment for Cession Agreement entered into.	-	305,663

Contingent assets

Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 49, civil proceedings have commenced against the employees concerned to recover an amount of R -. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

42. Related parties

Relationships

Members of key management	Refer to note 28
Members of the council	Refer to note 29

Related party balances

No related party balances were identified for the current and prior reporting period.

Related party transactions

Key management and Councillors receive and pay for services on the same terms and conditions as other rate payers. These transactions are recorded at arm's length.

43. Prior period errors

Property, Plant and Equipment were depreciated at the tax rates. The useful lives and residual values were not appropriately considered. (Give the nature of the error.)

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Property, plant and equipment	1	1

Cash flow statement

Figures in Rand	2016	2015

44. Comparative figures

No comparative figures have been presented as these are the first financial statements of the municipality.

The reporting period is longer/shorter than a year, therefore comparative amounts are not comparable to the current balances.

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

45. Risk management

Financial risk management

This note presents information about the municipality's exposure to each of the financial risks below and the municipality's objectives, policies and processes for measuring and managing financial risks. The Council has overall responsibility for the establishment and oversight of the municipality's risk management framework.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	2,437,110,277	-	-	-
Consumer deposits	36,177,187	-	-	-
Unspent conditional grants and receipts	1,004,295	-	-	-
Bank overdraft	2,603,485	-	-	-

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	2,247,112,381	-	-	-
Consumer deposits	35,269,819	-	-	-
Unspent conditional grants and receipts	6,024,486	-	-	-
Bank overdraft	1,569,372	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise of a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Other financial assets	330,990	19,201,386
Other receivables	28,639,230	18,753,346
Receivables from non-exchange transactions	154,640,557	161,926,055
Receivables from exchange transactions	872,007,231	743,597,219
Cash and cash equivalents	11,520,330	1,536,132
Receivables from non-exchange transactions (non-current)	511,134	-
Receivables from exchange transactions (non-current)	4,060,246	350,382

Market risk

Notes to the Financial Statements

Figures in Rand	2016	2015

45. Risk management (continued)

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

46. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated deficits of R 4,200,622,838 and that the municipality's total liabilities exceed its assets by R 4,200,622,838.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

47. Events after the reporting date

No significant events occurred after the reporting date.

48. Unauthorised expenditure

	2016	2015
Opening balance	-	3,698,128,927
Unauthorised expenditure current year	-	443,303,655
	-	**4,141,432,582**

Unauthorised expenditure relate to expenditure incurred that were not budgeted for per department vote (budget overspending).

49. Fruitless and wasteful expenditure

	2016	2015
Opening balance	-	337,705,181
Fruitless and wasteful expenditure current year	-	151,822,061
	-	**489,527,242**

Detail of fruitless and wasteful expenditure current year	
Auditor General	167,470

Fruitless and wasteful expenditure include interest charged for late payment to suppliers.

The fruitless and wasteful expenditure are not recoverable, no criminal or disciplinary steps were taken as a result of the expenditure and were written off in the year incurred.

50. Irregular expenditure

	2016	2015
Opening balance	-	484,659,738
Irregular expenditure current year	-	226,054,096
	-	**710,713,834**

Analysis of expenditure awaiting condonation per age classification

Details of irregular expenditure – current year

-

Figures in Rand	2016	2015

50. Irregular expenditure (continued)

Details of irregular expenditure condoned

		-

51. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	-	6,423,460

Being the subscription fee to the South African Local Government Association (SALGA).

Material losses

Distribution losses - Electricity	-	80,767,714
Distribution losses - Water	-	125,272,583
	-	**206,040,297**

There were no material losses through criminal conduct.

Audit fees

Opening balance	3,359,918	6,191,168
Current year audit fees	8,174,985	7,657,003
Interest charged	167,470	-
Amount paid - current year	(8,355,653)	(10,488,253)
Amount paid - previous years	(1,319,558)	-
Audit fees paid on behalf of Treasury	(500,000)	-
	1,527,162	**3,359,918**

PAYE, UIF and SDL

Opening balance	6,516,447	6,079,578
Current year payroll deductions and council contributions	85,579,624	77,431,139
Amount paid - current year	(77,749,996)	(70,914,692)
Amount paid - previous years	(6,516,447)	(6,079,578)
	7,829,628	**6,516,447**

Pension and Medical Aid Deductions

Opening balance	-	10,042,532
Current year payroll deductions and council contributions	-	132,993,960
Amount paid - current year	-	(121,720,063)
Amount paid - previous years	-	(10,042,532)
	-	**11,273,897**

VAT

VAT receivable	123,462,600	120,315,800

VAT output payables and VAT input receivables are shown in note 13.

Notes to the Financial Statements

Figures in Rand	2016	2015

51. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding more than 90 days R
Banyane ME	6,254
Kockera SC	174,066
Mabote TL	16,861
Madumise MM	15,357
Mlangeni MG	3,337
Molelekoa PA	72
Molelekoa PMI	4,004
Ntlele KI	17,241
Phetise ME	7,218
Qwesha GL	4,823
Riet MI	8,919
Tlhone ML	19,524
Tsubane ME	57,564
Twala MJ	97,021
	432,261

30 June 2015	Outstanding more than 90 days R
Banyane M E	4,919
Kabi M	5,427
Kockera S C	134,362
Mabote T L	12,716
Madumise M M	6,974
Mholo P P	4,098
Mlangeni M G	6,337
Ntlele K I	22,931
Phetise M E	10,518
Pina M J	1,034
Qwesha S W	1,975
Speelman N W	34,044
Tsubane M E	55,330
	300,665

52. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

53. Fines

	2016	2015
Traffic fines	10,592,300	11,631,450

Notes to the Financial Statements

Figures in Rand	2016	2015

54. Gain (loss) on disposal of assets and liabilities

Property, plant and equipment		
Gain (loss) on disposal of assets	1,448,982	(40,423,875)

55. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.